

# **EXHIBIT G**

**FILED**

SEP 22 1998

RICHARD W. WIEKING  
CLERK, U.S. DISTRICT COURT  
NORTHERN DISTRICT OF CALIFORNIA

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

CINEBASE SOFTWARE, INC.,

Plaintiff,

vs.

MEDIA GUARANTY TRUST, INC., et  
al.,

Defendants.

No. C98-1100 FMS

ORDER GRANTING IN  
PART AND DENYING IN  
PART DEFENDANTS'  
MOTION TO DISMISS;  
DENYING PLAINTIFF'S  
MOTION FOR  
PRELIMINARY  
INJUNCTION

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**INTRODUCTION**

Pending before the Court are defendant's motion to dismiss and plaintiff's motion for a preliminary injunction. Defendant's motion requires the Court to determine whether plaintiff has adequately pled copyright infringement and reverse passing off, and, if so, whether the Court should exercise supplemental jurisdiction over plaintiff's state law claims. Plaintiff's motion requires the Court to determine whether plaintiff has demonstrated a probability of success on the merits and a threat of irreparable harm.

**BACKGROUND**

**I. The Plaintiff**

Plaintiff Cinebase is a technology company that develops and markets digital media management software to the entertainment industry and the National Imagery and Mapping

1 Agency ("NIMA")<sup>1</sup>. Cinebase's current digital media data  
2 management product is Cinebase 1.X. Its next generation product  
3 is Cinebase 2.X. Cinebase owns a registered copyright for the  
4 program source code and header file source code for Cinebase 2.X  
5 and has deposited approximately 50 pages of this code with the  
6 Copyright office as part of the registration. Cinebase 2.X uses  
7 C++ programming language and is written for use with an object-  
8 oriented database called Object Store. Elliott Dep. p. 36; Wills  
9 Decl. ¶ 19.

10 Cinebase's March 1997 business plan includes  
11 advertising agencies and corporate marketing communications and  
12 advertising groups at Fortune 1000 firms as targets customers  
13 ("the advertising sector"). Pl's Exh. 133. The company has  
14 conducted substantial research on this sector of the digital  
15 media management market, but is not currently marketing to it.  
16 During 1997, Cinebase made a presentation to the advertising  
17 agency Leo Burnett, and developed a proposal for integrating the  
18 2.X system with the agency's system for managing media. Abrams  
19 Reply Decl. ¶¶ 17-18. The proposal envisioned a program based on  
20 the 2.X architecture for use with an Oracle database. Id.

## 21 **II. The Defendants**

22 Media Guaranty Trust ("Media Guaranty") is a software  
23 company formed in 1997 by defendants Krol, Dr. Brown, and  
24 Rozenfeld. Media Guaranty is currently developing a software  
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26 <sup>1</sup> NIMA is the federal agency responsible for storing and  
27 managing the U.S. government's repository of satellite intelligence  
28 and other images.

1 product that will manage digital media. It plans to have a  
2 product ready to ship in 1999, and is targeting Fortune 1000  
3 companies and associated advertising agencies. Pl's Exh. 81.  
4 Media Guaranty's business plan also includes the graphics and  
5 effects sector as a target. Pl's Exh. 81. Media Guaranty's  
6 planned product uses the Java programming language and is being  
7 written for use with Oracle 8, an object-relational database.  
8 Dr. Brown Decl. ¶ 67.

9 Defendant Dr. Allen L. Brown (Dr. Brown) worked at  
10 Cinebase as the Vice-President of Engineering and Product  
11 Planning from July 1996 to October 1997. In addition to planning  
12 Cinebase's software products, he was responsible for recruiting  
13 technical personnel to design and implement them. Before joining  
14 Cinebase, Dr. Brown had worked for over thirty years in the  
15 design and development of data management software. Immediately  
16 prior to joining Cinebase, Dr. Brown was working in Xerox  
17 Corporation's XSoft division directing the development of a  
18 software product that managed data, including video, film, and  
19 high resolution images. Dr. Brown Decl. ¶ 6.

20 Dr. Brown spent several months in 1997 negotiating with  
21 Cinebase over his employment contract, particularly over the  
22 parameters of a nondisclosure provision. He informed at least  
23 one Cinebase officer that he believed that any discoveries or  
24 developments or technologically valuable information he came up  
25 with during his employment belonged to him. Timko Decl. ¶ 13.  
26 No agreement was ever signed, and Dr. Brown resigned from  
27 Cinebase in October 1997. Dr. Brown is now the Chief Executive  
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1 Officer and Chief Technology Officer of Media Guaranty.

2 Defendant Natasha X. Krol (Krol) worked at Cinebase as  
3 Vice-President of New Business Development from December 1996 to  
4 October 1997. Before joining Cinebase, Krol was a Vice President  
5 at the META Group, a market research and consulting company  
6 specializing in the information technology field. During her  
7 time at Cinebase, Krol focused primarily on the advertising  
8 market and compiled extensive information on that market,  
9 including lists of potential client contacts, market sizing  
10 information, and financial analyses. In July 1997, her  
11 supervisors told her to stop investigating the advertising market  
12 and focus on the company's more immediate marketing needs;  
13 however, Dr. Brown intervened, and Krol continued to research the  
14 advertising sector. Krol never signed a non-disclosure agreement  
15 with Cinebase. Krol Decl. ¶ 13. It is not clear from the record  
16 what reports, if any, Krol provided to Cinebase based on her  
17 research. Krol resigned from Cinebase in October 1997. She is  
18 now the President and Vice President of Marketing of Media  
19 Guaranty.

20 Defendant Katherine Topper worked at Cinebase as the  
21 Director of Marketing from June 1997 to December 1997. She  
22 assisted Krol in the investigation of new business opportunities,  
23 particularly in the advertising sector. Topper never signed a  
24 non-disclosure agreement with Cinebase. Topper Decl. ¶ 5. After  
25 Krol left Cinebase, Topper stayed in contact with her by e-mail.  
26 Topper was laid off by Cinebase in December 1997. She was hired  
27 by Media Guaranty in February 1998.

1 On November 14, 1997, Topper e-mailed Krol a copy of a  
2 third-party marketing analysis report, the Weinstock Report, Krol  
3 had commissioned while still at Cinebase. Topper Dep. ¶. 214-  
4 215. The report was jointly commissioned by Cinebase and another  
5 company, Media 100. Topper also brought a copy of this report  
6 with her when she joined Media Guaranty in February 1998.

7 Defendants Joseph Rozenfeld, Tom Wills, and Carl  
8 Reisinger worked at Cinebase as software engineers. They were on  
9 the team responsible for development of Cinebase's next  
10 generation software. Before coming to Cinebase, they worked on  
11 designing and developing database and data management software,  
12 including programs capable of storing, archiving, and retrieving  
13 documents of all types, including video, film and audio digital  
14 media. Rozenfeld Decl. ¶ 4-5; Wills Decl. ¶ 6; Reisinger Decl. ¶  
15 6. None of them ever signed a non-disclosure agreement with  
16 Cinebase. Rozenfeld Decl. ¶ 7; Wills Decl. ¶ 11; Reisinger Decl.  
17 ¶ 8.

18 Rozenfeld resigned from Cinebase in October 1997 and  
19 immediately joined Media Guaranty as its Vice President of  
20 Software Development.<sup>2</sup> Wills resigned from Cinebase in October  
21 1997 and joined Media Guaranty as an engineer in January 1998.  
22 Reisinger resigned in November 1997 and joined Media Guaranty as  
23 an engineer on February 1, 1998.

### 24 **III. Departure from Cinebase/Formation of Media Guaranty**

25 During the spring and summer of 1997, there were  
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27 <sup>2</sup> Rozenfeld has since left Media Guaranty.

1 disagreements among members of the Cinebase management team  
2 regarding the company's strategy and leadership. Abrams Dec. ¶  
3 19. On June 25, 1997, Cinebase fired its CEO Tom Atwood. In  
4 August 1997, Michael Abrams, Cinebase's Vice-President of  
5 Solutions (now its Chief Operating Officer), proposed to the  
6 executive committee that Cinebase be divided into two companies,  
7 a Northern California company that would develop and market  
8 software products, and a Los Angeles-based solutions company that  
9 would provide integration services and resell products. Abrams  
10 Dep. p. 33; Dr. Brown Decl. ¶ 51. This plan was not adopted.

11 In August 1997, Krol, Dr. Brown, and Abrams discussed  
12 the current state of affairs at the company. Dr. Brown and Krol  
13 then created a presentation entitled "The State of Cinebase" that  
14 reviewed the company's present situation. In early August 1997,  
15 they brought this presentation to a meeting with George Rossman  
16 of Bank of America Ventures, a longtime professional friend of  
17 Dr. Brown's. Dr. Brown Dep. ¶. 24,39. The presentation included  
18 a list of possible actions: "Stick it out"; "Take the product and  
19 run"; and "Find other opportunities in the digital media  
20 management space". Pl's Exh. 102. At the meeting, Rossman  
21 provided Dr. Brown and Krol with the names of several attorneys  
22 to consult regarding their intellectual property rights vis a vis  
23 Cinebase. Dr. Brown Dep. p. 43. Following the meeting, Dr.  
24 Brown and Krol met with Don Keller, an attorney at the Venture  
25 Law Group. Dr. Brown Dep. ¶. 63,67.

26 Shortly thereafter, in late August or early September  
27 1997, Krol and Dr. Brown prepared a second presentation entitled  
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1 "Bullwinkle Business Plan Cinebase Exit Strategy" and met with  
2 Rossman about funding a new venture. Dr. Brown Dep. p. 63.  
3 Abrams participated in discussions related to leaving Cinebase,  
4 but chose to stay at Cinebase. Dr. Brown and Krol proceeded to  
5 develop a business plan, seek out funding, and form Media  
6 Guaranty Trust.

7 When Dr. Brown and Krol left Cinebase, each had a  
8 laptop computer issued by Cinebase for their personal and  
9 business use. The defendants state that they kept these  
10 computers after leaving Cinebase as collateral for expense  
11 reimbursements Cinebase owed them. Before returning the  
12 computers in December 1997, the defendants reformatted their hard  
13 drives, erasing all of the personal and business-related  
14 materials stored on the computers. Dr. Brown states that he also  
15 reformatted the hard drive on his computer immediately after  
16 leaving Cinebase in order to erase all Cinebase-related documents  
17 and files. Dr. Brown Dep. ¶. 19-20.

## 18 DISCUSSION

### 19 I. Legal Standards

#### 20 A. Rule 12(b)(6) dismissal

21 A motion to dismiss pursuant to Rule 12(b)(6) tests the  
22 sufficiency of the complaint. See North Star Int'l v. Arizona  
23 Corp. Comm'n, 720 F.2d 578, 581 (9th Cir. 1983). Dismissal of an  
24 action pursuant to Rule 12(b)(6) is appropriate only where it  
25 "appears beyond doubt that the plaintiff can prove no set of  
26 facts in support of his claim which would entitle him to relief."  
27 Levine v. Diamantheset, Inc., 950 F.2d 1478, 1482 (9th Cir. 1991)



1 (quoting Conley v. Gibson, 355 U.S. 41, 45-46 (1957)).

2 In reviewing a motion to dismiss pursuant to Rule  
3 12(b)(6), the Court must assume all factual allegations to be  
4 true and must construe them in the light most favorable to the  
5 nonmoving party. See North Star, 720 F.2d at 580. Legal  
6 conclusions need not be taken as true merely because they are  
7 cast in the form of factual allegations, however. See Western  
8 Mining Council v. Watt, 643 F.2d 618, 624 (9th Cir. 1981).

9 **B. Pleading requirements**

10 Federal Rule of Civil Procedure 8 requires a plaintiff  
11 to set forth "a short plain statement" of its claims that will  
12 give the defendant fair notice of the claims and the ground on  
13 which they rest. Fed. R. Civ. P. 8; Conley v. Gibson, 355 U.S.  
14 41, 47 (1957).

15 Allegations of fraud must satisfy the requirements of  
16 Rule 9(b) to survive a motion to dismiss. Rule 9(b) provides:  
17 "In all averments of fraud or mistake, the circumstances  
18 constituting fraud or mistake shall be stated with particularity.  
19 Malice, intent, knowledge, and other condition of mind of a  
20 person may be averred generally." The intent of Rule 9(b) is to  
21 prevent the filing of a complaint as a pretext for the discovery  
22 of unknown wrongs. See Semegen v. Weidner, 780 F.2d 727, 731  
23 (9th Cir. 1985).

24 **C. Preliminary Injunction**

25 In order for the Court to issue a preliminary  
26 injunction, plaintiff must show "either (1) a combination of  
27 probable success on the merits and the possibility of irreparable  
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1 harm, or (2) that serious questions are raised and the balance of  
2 hardships tips sharply in the moving party's favor." Rodeo  
3 Collection, Ltd. v. West Seventh, 812 F.2d 1215, 1217 (9th Cir.  
4 1987) (citing Sardi's Restaurant Corp. v. Sardie, 755 F.2d 719,  
5 723 (9th Cir. 1985)).

## 6 **II. Analysis**

### 7 **A. Motion to Dismiss**

8 Defendants seek to have this suit dismissed on several  
9 grounds: (1) that plaintiff has failed to and cannot allege all  
10 of the elements of its federal claims; (2) that the Court lacks  
11 subject matter jurisdiction over plaintiff's remaining state law  
12 claims and/or that the Court should not exercise supplemental  
13 jurisdiction over these claims; and (3) that plaintiff has failed  
14 to state claims for breach of confidence, breach of an implied-  
15 in-fact contract, trade secret misappropriation, and intentional  
16 interference with prospective economic advantage. Defendant also  
17 seeks to have defendant Topper dismissed from this suit, and  
18 certain allegations concerning fraud by defendant Dr. Brown  
19 struck from the First Amended Complaint.

#### 20 **1. Federal Claims**

##### 21 **a. Copyright Infringement**

22 In its first cause of action for copyright infringement  
23 in violation of 17 U.S.C. §106, Cinebase alleges that it owns  
24 copyrights to and has obtained federal copyright registrations  
25 for its Cinebase 2.X computer program for management of high-  
26 resolution digital media, including the header file and program  
27  
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1 source codes<sup>3</sup>; that the defendants had access to the copyrighted  
2 works and obtained copies of them during the time of their  
3 employment at Cinebase; and that defendants are now infringing  
4 Cinebase's copyright by using the copyrighted works to produce,  
5 distribute and/or publish digital media management products,  
6 substantial portions of which were copied and/or derived from the  
7 2.X program.

8 Defendants argue that this claim should be dismissed  
9 because plaintiffs have not adequately identified the product  
10 with which defendant is allegedly infringing plaintiff's  
11 copyrights. They argue further that the dismissal should be with  
12 prejudice because all parties agree that defendant does not  
13 currently have a product that plaintiff could identify. First,  
14 the lack of a completed marketable product does not defeat  
15 plaintiff's copyright claim. Section 106 protects a copyright  
16 owner from another's reproduction of the copyrighted work or  
17 preparation of derivative works based upon the copyrighted work  
18 as well as from the distribution of copies to the public. 17  
19 U.S.C. §106. Defendants' completion of their product is  
20 therefore not a prerequisite to a copyright infringement claim.

21 Second, the Court does not agree with defendant that  
22 there is a heightened pleading standard in copyright infringement  
23 cases. Cf. Gee v. CBS, Inc., 471 F.Supp. 600 (E.D. Pa.), aff'd,  
24 612 F.2d 572 (3d Cir. 1979). Rule 8 simply requires that a

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25  
26 <sup>3</sup> The parties dispute the scope of plaintiff's infringement  
27 claim; however, the Court construes the complaint to include only  
28 those elements of plaintiff's program that are the subject of a  
registered copyright.

1 plaintiff provide a defendant with adequate notice of the subject  
2 of the claims to allow the defendant to respond. Here, defendant  
3 does not yet have a finished product, but all parties agree that  
4 it is quite far along in the development of a software program  
5 designed to manage digital media. As there is no ambiguity  
6 regarding the product plaintiff refers to in the First Amended  
7 Complaint, the Court finds that plaintiff has met the requirement  
8 of Rule 8. Because section 106 does not provide for prospective  
9 relief for copyright infringement that has not yet occurred,  
10 however, the Court strikes plaintiff's copyright infringement  
11 allegations concerning the distribution and publication of the  
12 Media Guaranty product.

13 Defendants argue that even if plaintiff has adequately  
14 alleged copyright infringement, this claim should be dismissed as  
15 to defendant Topper because there are no allegations connecting  
16 her to Media Guaranty's copying or use of the copyrighted works.  
17 Because the complaint does contain the allegation that Topper  
18 infringed along with the other defendants, dismissal at this  
19 stage would be inappropriate. If the evidence later shows that  
20 Topper had no direct or contributory role in the alleged copying,  
21 she may be dismissed on summary judgment.

22 **b. Reverse Passing Off**

23 In its second cause of action for reverse passing off  
24 in violation of 15 U.S.C. §1125(a), Cinebase alleges that  
25 defendants Media Guaranty, Dr. Brown, Krol, Rozenfeld, Wills and  
26 Reisinger removed indications and designations of Cinebase as the  
27 source of Media Guaranty's software product; and that these  
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1 defendants have and will distribute and/or publish software under  
2 a different name.

3 Section 1125(a) provides for a cause of action when a  
4 person

5 uses in commerce any word, term, name, symbol, or device,  
6 or any combination thereof, or any false designation of  
7 origin, . . . which is likely to cause confusion, or to  
cause mistake, or to deceive as to the . . . origin . . .  
of his or her goods . . . .

8 Given that Media Guaranty does not yet have and has never  
9 marketed or sold a software product, plaintiff cannot state a  
10 claim for reverse passing off. At oral argument, plaintiffs  
11 urged the Court to sustain this claim because there are no cases  
12 dismissing reverse passing off claims based on the absence of an  
13 actual product. In all likelihood, there are no such cases  
14 because it is evident that the defendant must actually have a  
15 product before a plaintiff can assert its claim. This claim is  
16 therefore dismissed.<sup>4</sup>

## 17 2. State Claims

### 18 a. Supplemental Jurisdiction

19 A district court may exercise supplemental jurisdiction  
20 over state claims that are part of the same case or controversy  
21 as claims over which the court has original jurisdiction. 28  
22 U.S.C. §1367(a). A district court may decline to exercise  
23 supplemental jurisdiction, however, if the state claims raise  
24 novel or complex issues of state law or substantially  
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26 <sup>4</sup> Because the Court dismisses plaintiff's reverse passing off  
27 claim, it does not reach defendant's arguments regarding the lack  
28 of specific allegations against defendant Topper.

1 predominate. 28 U.S.C. §1367(c)(1) and (c)(2).

2 Original jurisdiction lies over plaintiff's federal  
3 claims, and the state claims in plaintiff's complaint are part of  
4 the same case or controversy. Defendant argues that the state  
5 law issues, particularly those pertaining to plaintiff's trade  
6 secrets claim, are novel and complex and that they substantially  
7 predominate. This argument is not persuasive. Federal courts  
8 routinely handle trade secrets matters. See, e.g., Rivendell  
9 Forest Prods. v. Georgia-Pacific Corp., 28 F.3d 1042 (10th Cir.  
10 1994); Integrated Cash Mgmt. Svc. v. Digital Transactions, 920  
11 F.2d 171 (2d Cir. 1990). Although the state claims here may  
12 predominate, it is not clear from the face of the complaint that  
13 they "substantially" predominate or that the federal copyright  
14 claim will not be important in the case.

15 **b. Breach of Confidence**

16 To prevail on a breach of confidence claim, plaintiff  
17 must show that: (1) it conveyed confidential and novel  
18 information; (2) defendants had knowledge that the information  
19 was being disclosed in confidence; (3) there was an understanding  
20 between plaintiff and defendants that the confidence be  
21 maintained; and (4) there was disclosure or use in violation of  
22 the understanding. See Aliotti v. R. Dakin & Co., 831 F.2d 898,  
23 903 (9th Cir. 1987) (citing Tele-Count Engineers v. Pacific Tel.  
24 & Tel., 168 Cal.App.3d 455, 462-66 (1st Dist. 1985)).

25 Constructive notice of confidentiality is not sufficient. Id.

26 Defendants argue first that plaintiff has not alleged  
27 novelty. Plaintiff's complaint describes the ideas in questions  
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1 as "not novel and vague"; however, plaintiff has filed a notice of  
2 errata correcting this typographical error, and the claim now  
3 reads "ideas which are novel and unique."

4 Defendants next argue that plaintiff's allegations  
5 regarding the confidentiality of communications with defendants  
6 are insufficient and that plaintiff has failed to identify the  
7 information allegedly transmitted to them. The allegations of  
8 confidentiality are sufficient to state a claim. Although some  
9 of the information allegedly transmitted to defendants is  
10 copyrighted, plaintiff's claim is broader than the copyright.  
11 Plaintiff's allegations are specific enough to withstand a motion  
12 to dismiss. At a later stage, plaintiff will have to identify  
13 the exact ideas it seeks to protect; however the general  
14 description contained in the complaint does "provide defendant  
15 with a basis for assessing . . . plaintiff's claim, for  
16 preserving relevant evidence . . . and for preparing an  
17 appropriate answer." Grid Sys. Corp. v. Texas Instruments, Inc.,  
18 771 F.Supp. 1033, 1037 (N.D. Cal. 1991).

19 **c. Breach of Implied-in-Fact Contract**

20 Plaintiff alleges that it disclosed information about  
21 its software program to defendants on the condition that they  
22 would not use the information for personal gain or to harm  
23 plaintiff, and that defendants have now used the information to  
24 develop their own software product at Media Guaranty. Defendants  
25 argue that this alleged arrangement cannot be the basis of a  
26 claim for breach of an implied-in-fact contract because  
27 defendants were employees of plaintiff and were not offered the  
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1 information "for sale". See Aliotti v. Dakin & Co., 831 F.2d 898,  
2 902 (9th Cir. 1987).

3 In Aliotti, the Ninth Circuit affirmed a grant of  
4 summary judgment for the defendant on a breach of implied-in-fact  
5 contract claim because the evidence showed that the plaintiff had  
6 disclosed her toy designs to the toy manufacturer defendant  
7 before the issue of compensation was ever broached. Id. at 902-  
8 003. Plaintiff's breach of contract claim does not fit neatly  
9 into the Aliotti rubric because defendants were employees at  
10 Cinebase rather than third parties; however, plaintiff has pled  
11 that defendants promised to compensate plaintiff for disclosing  
12 information by refraining from using it for personal gain, and  
13 that allegation is sufficient to withstand a motion to dismiss.

14 **d. Trade Secret Misappropriation**

15 Under California's trade secret statute, a plaintiff  
16 must prove that it possesses a trade secret and that the trade  
17 secret was misappropriated. Cal. Civ. Code §3426.1. Cinebase  
18 has pled that it possesses trade secrets in its software design  
19 and specifications, in the technical know-how of its engineers,  
20 and in various marketing materials and strategies. Relying on  
21 Universal Analytics, Inc. v. MacNeal-Schwendler Corp., 707  
22 F.Supp. 1170 (C.D. Cal. 1989), defendants argue that the trade  
23 secret misappropriation claim should be dismissed because  
24 plaintiff has not adequately identified the secrets it seeks to  
25 protect.

26 In Universal Analytics, the court granted summary  
27 judgment to the defendant because the plaintiff failed to  
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1 identify in any way the trade secrets it sought to protect. Id.  
2 at 1177. Universal Analytics is distinguishable. First, the  
3 court in Universal Analytics was deciding a motion for summary  
4 judgment; therefore, the burden on the plaintiff was much higher  
5 than it is here. Second, the plaintiff in that case failed to  
6 identify, even in the most general fashion, what trade secrets  
7 were at issue. Here, plaintiff has identified, albeit in fairly  
8 general terms, the categories of trade secrets it seeks to  
9 protect and the places where those secrets are found. Compl. ¶  
10 83. Although plaintiff will have to identify its alleged trade  
11 secrets with much greater particularity in order to prevail on  
12 this claim, plaintiff has stated a claim of trade secret  
13 misappropriation.

14 **e. Intentional Interference with Economic**  
15 **Advantage**

16 The elements of the tort of intentional interference  
17 with prospective economic advantage are: (1) an economic  
18 relationship between the plaintiff and some third person  
19 containing the probability of future economic benefit to the  
20 plaintiff; (2) knowledge by the defendant of the existence of the  
21 relationship; (3) intentional acts on the part of the defendant  
22 designed to disrupt the relationship; (4) actual disruption of  
23 the relationship; and (5) damages to the plaintiff proximately  
24 caused by the acts of the defendant. See Silicon Knights v.  
25 Crystal Dynamics, Inc., 983 F.Supp. 1303, 1311 (N.D. Cal. 1997)  
26 (citing Rickards v. Canine Eye Registration Foundation, Inc., 704  
27 F.2d 1449, 1456 (9th Cir. 1983)).

1 Defendants argue that plaintiff fails to state a claim  
2 because it has not alleged the actual disruption of an existing  
3 relationship. "The law precludes recovery for overly speculative  
4 expectancies by initially requiring proof the business  
5 relationship contained 'the probability of future economic  
6 relationship.'" Westside Center Associates v. Safeway Stores 23,  
7 Inc., 42 Cal.App.4th 507, 522 (5th Dist. 1996) (citing Youst v.  
8 Longo, 43 Cal.3d 64, 71 (1987)). In Westside, the court held  
9 that the requirement that the plaintiff plead and prove that a  
10 business relationship contained the "probability of future  
11 economic benefit" to the plaintiff precluded application of the  
12 tort to "hypothetical relationships" not developed at the time of  
13 the allegedly tortious acts. Id.; see also Roth v. Rhodes, 25  
14 Cal.App.4th 530, 546 (4th Dist. 1994) (concluding that podiatrist  
15 denied space in defendants' medical building could not have  
16 existing relationship with speculative "future patients.")

17 The Silicon Knights complaint alleged that defendants  
18 "wrongfully interfered with [plaintiff's] reasonable expectation  
19 of trade and business relationships with customers, prospective  
20 customers, industry associates and the public," including  
21 "prospective economic advantage with Microsoft, Activision, and  
22 3DO." Applying the rule from Westside, the Silicon Knights court  
23 dismissed the plaintiff's intentional interference claim because  
24 there was no factual allegation in the complaint that plaintiff  
25 had an actual relationship with a third party that was disrupted  
26 as a result of defendants' conduct. Silicon Knights, 983 F.Supp.  
27 at 1311-12.

1 Cinebase alleges that defendants have made false and  
2 misleading statements about Cinebase to its "customers,  
3 prospective customers, strategic partners, potential strategic  
4 partners and potential venture capitalists -- including Hambricht  
5 & Quist . . ." and that these statements "are interfering with  
6 Cinebase's prospective economic relationships with the above-  
7 mentioned [parties] and are impairing Cinebase's ability to  
8 obtain venture capital." Compl. ¶ 121. As in Silicon Knights,  
9 plaintiff's claim includes no facts that would support an  
10 allegation that it had existing economic relationships that were  
11 damaged by the defendants. Id. at 1312. To the extent plaintiff  
12 alleges interference with hypothetical, "potential," or  
13 "prospective" relationships, the claim is not cognizable under  
14 California law. Westside at 522. Accordingly, this claim is  
15 dismissed. Because plaintiff has already had one opportunity to  
16 amend its complaint, and because the pleading is so conclusory,  
17 the Court denies leave to amend.

18 **f. Fraud Claims**

19 Defendants argue that plaintiff has failed to plead its  
20 fraud claim against Dr. Brown with adequate specificity. Under  
21 Federal Rule of Civil Procedure 8, a plaintiff must allege fraud  
22 "with particularity." Although plaintiff has not stated the exact  
23 date on which Dr. Brown allegedly misrepresented his intentions  
24 regarding a non-disclosure agreement, the complaint makes it  
25 clear that the alleged statements were made on several occasions  
26 between March 1997 and October 1997. The complaint fails to  
27 state, however, the parties to whom Dr. Brown allegedly made the  
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1 misrepresentations. Because this information is necessary to  
2 enable Dr. Brown to respond to plaintiff's fraud charge, the  
3 defendant's motion for a more definite statement is granted.  
4 Plaintiff shall specify the party or parties to whom Dr. Brown  
5 allegedly stated that he intended to sign a non-disclosure  
6 agreement with Cinebase.

7 **B. Plaintiff's Motion for Preliminary Injunction**

8 **1. The Merits**

9 Under California's trade secret statute, plaintiff must  
10 prove that it possesses a trade secret and that the trade secret  
11 was misappropriated. Cal. Civ. Code §3426.1. A trade secret is  
12 information that (1) derives independent economic value from not  
13 being generally known; and (2) is the subject of efforts that are  
14 reasonable under the circumstances to maintain its secrecy. Cal.  
15 Civ. Code §3426.1(d). Actual or threatened misappropriation may  
16 be enjoined. Cal. Civ. Code §3426.2.<sup>5</sup>

17 Cinebase claims that defendants have misappropriated  
18 and will further misappropriate three categories of trade  
19 secrets: software architecture from the 2.X program; technical  
20 know-how; and marketing information about the advertising sector.

21 **a. Software Architecture**

22 The architecture of Cinebase's 2.X software program  
23 derives independent economic value from not being generally  
24 known. Defendants argue, however, that plaintiff's software

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26 <sup>5</sup> Defendants cite to several California cases for the  
27 proposition that actual use of the trade secret must be shown.  
28 These cases predate California's adoption of the Uniform Trade  
Secret Act, however, and are therefore inapposite. [list cases].

1 architecture does not qualify as a trade secret because plaintiff  
2 has failed to distinguish proprietary from non-proprietary  
3 portions of the software architecture, and because the software  
4 and its architecture have not been kept secret.

5 Defendants are correct that for purposes of obtaining a  
6 preliminary injunction based on actual use of a trade secret,  
7 plaintiff has failed to adequately identify what portions of its  
8 overall software architecture are trade secrets. In Integral  
9 Systems, Inc. v. PeopleSoft, Inc., 1991 WL 498874 (N.D. Cal.,  
10 July 19, 1991), the court denied a preliminary injunction for  
11 trade secret misappropriation in part because the plaintiff had  
12 failed to link "specific, confidential information" from its  
13 software program to a "specific manifestation" in the defendant's  
14 software program. See id. at \*14. Media Guaranty does not yet  
15 have a finished product, so plaintiff is not in a position to  
16 make such a showing here. At oral argument, however, defendants  
17 represented to the Court that plaintiff has obtained the source  
18 code for Media Guaranty's planned product through discovery.  
19 Plaintiff's failure to identify any specific similarities between  
20 Cinebase 2.X and the Media Guaranty product undermine its claim  
21 considerably. The claim that defendants' work-in-progress will  
22 perform functions similar to those performed by the Cinebase 2.X  
23 program is insufficient to demonstrate actual misappropriation.

24 In the absence of an actual comparison of the  
25 architecture of the two programs, the Court must determine  
26 whether plaintiff has taken adequate measures to protect its  
27 software architecture, and whether the evidence submitted by  
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1 plaintiff demonstrates a threat of misappropriation of this  
2 architecture in the development of Media Guaranty's product.

3 Reasonable efforts to maintain the secrecy of certain  
4 information include limiting access to the information, advising  
5 employees of existence of a trade secret, requiring employees to  
6 sign nondisclosure agreements, and keeping secret documents under  
7 lock. See Religious Technology Center v. Netcom On-Line  
8 Communication Services, Inc., 923 F.Supp. 1231, 1253 (N.D. Cal.  
9 1995). Cinebase did not have nondisclosure agreements with  
10 defendants or with any of its technical personnel during time  
11 period relevant to this action; nor did it have any formal policy  
12 or manuals regarding confidentiality. Cinebase attempted to  
13 secure nondisclosure agreements from Dr. Brown and other software  
14 engineers working on Cinebase 2.X, but was unable to do so.  
15 Cinebase contends that its efforts to maintain the secrecy of its  
16 software architecture were nonetheless reasonable under the  
17 circumstances because it protected the 2.X source code with  
18 passwords, limited access to a need-to-know basis, and placed  
19 "Confidential" legends on documents containing sensitive  
20 information. Two of Cinebase's officers have stated that it is  
21 "well known and understood among Cinebase's employees" that the  
22 company's software architecture is confidential information.  
23 Abrams Decl. ¶ 10; Elliot Decl. ¶ 12. These statements do not  
24 appear to be based on personal knowledge, however, and are not  
25 corroborated by evidence of any explicit notification given to  
26 employees.

27 Defendants argue that plaintiff's failure to secure  
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1 nondisclosure agreements coupled with disclosures of software  
2 architecture in sales presentations and the depositing of  
3 portions of the 2.X source code with the Copyright Office defeat  
4 the trade secret status of the 2.X software architecture.  
5 Although Cinebase sales presentations have included  
6 demonstrations and in-depth descriptions of the program, they did  
7 not effect a disclosure of the entire software architecture.  
8 Similarly, the presence of 50 pages of source code at the  
9 Copyright office does not defeat plaintiff's claim as to the  
10 remaining portions of the source code or as to the architecture  
11 as a whole. Plaintiff's continuing failure to secure  
12 nondisclosure agreements from technical personnel, however, put  
13 it on notice that its intellectual property was vulnerable to  
14 disclosure or misappropriation. In light of this situation,  
15 plaintiff's failure to institute further measures to secure its  
16 intellectual property was not reasonable under the circumstances.

17 Even if the Court were to find that plaintiff had  
18 adequately protected its software architecture, plaintiff has  
19 failed to establish a likelihood of success on its claim that  
20 there is presently a threat of misappropriation of the 2.X  
21 software architecture. Plaintiff offers the following  
22 circumstantial evidence in support of this claim: the similarity  
23 of the functions Cinebase 2.X and Media Guaranty's planned  
24 product; defendants' conduct while still employed at Cinebase;  
25 and the erasure of the hard drive on a laptop computer returned  
26 to Cinebase by Dr. Brown after his resignation.

27 Defendants have submitted evidence demonstrating that  
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1 Media Guaranty is using a different programming language and a  
2 different database in the design of its software product. Brown  
3 Decl. ¶ 67; Lumish Decl., Exh. S (Elliot Dep.). Plaintiffs  
4 contend, however, that these differences are insignificant. The  
5 Court is not in a position to assess the significance of these  
6 differences at present, particularly because plaintiff's broad  
7 claim based on the software architecture as a whole makes it  
8 difficult to assess their relevance. All that is clear from the  
9 record is that Media Guaranty's planned product will not be an  
10 exact replica of Cinebase 2.X. In the absence of more  
11 information, the evidence of similarity is insufficient to  
12 establish threatened misappropriation.

13 With respect to defendants' conduct during their final  
14 months of employment with Cinebase, defendants claim that  
15 although they were making plans to depart and form a new company,  
16 they never intended to steal Cinebase's product. As evidence of  
17 defendant's darker intentions, Cinebase points to the slide  
18 presentation on the state of Cinebase prepared by Dr. Brown, Krol  
19 and Cinebase's then-Vice-president of Solutions Michael Abrams  
20 that included as one possible scenario: "Take the product and  
21 run." Plaintiff insists that this scenario is the proverbial  
22 smoking gun; however, defendants contend that plaintiff has  
23 distorted the meaning of the "Take the product and run" option.  
24 According to defendants, this option was the same as one  
25 presented to Cinebase's Board that envisioned splitting the  
26 company into two components, one focused on developing and  
27 marketing software products, the other focused on solutions.



1 Given the participation of Abrams in the creation of the slide  
2 presentation and his failure to notify others at Cinebase of Dr.  
3 Brown's and Krol's allegedly ignoble intentions, defendants'  
4 explanation appears more plausible. The "Take the product and  
5 run" evidence does not support a finding of threatened  
6 misappropriation.

7 With respect to the erasure of the computer hard drive,  
8 Dr. Brown states that he kept this computer as collateral against  
9 outstanding payments Cinebase owed him, that he erased Cinebase's  
10 information from the hard drive immediately after he resigned,  
11 and that he erased the hard drive before returning the computer  
12 because it contained extensive personal as well as Media Guaranty  
13 work-related information. Plaintiff has offered no evidence  
14 suggesting that these statements are false. The Court cannot  
15 conclude, based on the evidence presented, that the defendants  
16 intend to misappropriate Cinebase's software architecture.

17 **b. Technical Know-How**

18 "Negative research" can be protectable as a trade  
19 secret. See Courtesy Temporary Service v. Camacho, 222  
20 Cal.App.3d 1278, 1287-88 (2d Dist., 1990). Information stored in  
21 the minds of employees rather than being recorded is also  
22 protectable. See Morlife, Inc. v. Perry, 66 Cal.Rptr.2d 731, 736  
23 (1st Dist. 1997). Plaintiff's designation of the defendant  
24 software engineers' "technical know-how" regarding what does and  
25 does not work in the process of designing digital media  
26 management software is simply too nebulous a category of  
27 information to qualify for trade secret protection, however. In  
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1 Courtesy Temporary Service, the court determined that information  
2 about potential customers who did not subscribe to plaintiff's  
3 services was protectable as a trade secret. Id. at 1288. The  
4 trade secret, in other words, was the fact that certain entities  
5 were not worth soliciting for business. In contrast, plaintiff  
6 here does not identify any specific design routes that the  
7 defendants should be restrained from using, but instead seeks to  
8 restrain them from designing any digital media management  
9 software at all. See Plaintiff's Proposed Order Granting  
10 Preliminary Injunction. Given that these defendants had  
11 substantial experience designing digital media management  
12 software before coming to Cinebase, and that Cinebase never  
13 secured non-disclosure agreements from them, such a restraint is  
14 overbroad and unwarranted.

15 **c. Marketing Information**

16 Marketing information such as client lists, analyses of  
17 potential clients, and marketing plans have an independent  
18 economic value from not being generally known. See, e.g., Morton  
19 v. Rank America, Inc., 812 F.Supp. 1062, 1073 (C.D. Cal. 1993);  
20 ABBA Rubber Co. v. Seagrist, 286 Cal.App.3d 1, 19 (4th Dist.  
21 1991). Defendants argue that the marketing information about the  
22 advertising sector Cinebase seeks to protect is not a trade  
23 secret because defendant Krol brought much of the information  
24 with her to Cinebase. Defendants argue further that plaintiff  
25 has not established that defendants have or will misappropriate  
26 any protectable marketing information.

27 Any information relating to the advertising sector that  
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1 Krol brought with her to Cinebase from her former job is not  
2 Cinebase's trade secret. In addition, the Weinstock market  
3 analysis report defendant Topper appears to have transmitted to  
4 Krol at Media Guaranty is not a trade secret because it was  
5 commissioned by Cinebase and a third party, Media 100, and there  
6 was no confidentiality agreement between the two parties.

7           Given that Krol spent most of her ten-month tenure at  
8 Cinebase investigating and researching the advertising sector,  
9 she is likely to have developed new lists and gathered new  
10 information that she did not have before joining the company. In  
11 her deposition, for example, she acknowledged that she had never  
12 had contact with anyone at Leo Burnett, an advertising agency,  
13 before she came to Cinebase. Krol. Dep. p.108. This information  
14 is protectable as a trade secret if Cinebase took reasonable  
15 measures to preserve its secrecy, but it is not clear from the  
16 papers whether Cinebase took any steps to protect this  
17 information. There is no evidence of any nondisclosure agreement  
18 with either Krol or Topper, and because it appears that Krol did  
19 not provide Cinebase with reports on her work, there was nothing  
20 for Cinebase to designate as Confidential. In the absence of  
21 further evidence of efforts to maintain the secrecy of marketing  
22 information and contacts, plaintiff is not entitled to the  
23 extraordinary relief it seeks.

## 24           **2. Irreparable Injury**

25           Because plaintiff has failed to demonstrate a  
26 likelihood of success on the merits of its trade secret  
27 misappropriation claims, the Court need not reach the question of  
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1 irreparable harm. It is noted, however, that plaintiff's  
2 intentions with respect to the sector of the market defendants  
3 are targeting are not clear, especially given that plaintiff  
4 instructed Krol to stop researching the advertising sector in  
5 mid-1997. If plaintiff only intends to target the advertising  
6 sector some day in the distant future, there is no impending  
7 threat of irreparable harm. If, on the other hand, plaintiff has  
8 concrete near-term plans to enter this sector of the digital  
9 media management market, there would be threat of irreparable  
10 harm to plaintiff's position in that market.

#### 11 CONCLUSION

12 Defendants' motion to dismiss is GRANTED as to  
13 plaintiff's reverse passing off and intentional interference with  
14 prospective economic advantage claims. Defendants' motion for a  
15 more definite statement is GRANTED as to plaintiff's fraud claim  
16 against Dr. Brown. The remainder of defendants' motion to  
17 dismiss is DENIED. Plaintiff's motion for a preliminary  
18 injunction is DENIED.

19  
20 SO ORDERED.

21 Dated: September 24, 1998

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24 FERN M. SMITH  
25 United States District Judge  
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